



CITY OF TAFT, TEXAS
Annual Financial Report
For the fiscal year ended September 30, 2018

Raul Hernandez & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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CITY OF TAFT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2018

CITY OF TAFT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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May 14, 2019

The Honorable Mayor, City Council and City Manager
City of Taft
Taft, Texas

This report represents the Annual Financial Report for the City of Taft, Texas for the fiscal year ended September 30, 2018.

This report is published to provide the City Council, City Staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The Staff is pleased to submit the Annual Financial Report for the City of Taft, Texas, for the fiscal year ended September 30, 2018.

THE REPORT

This report is presented in two sections: Introductory, and Financial. The Introductory Section includes this transmittal letter, and a listing of the City Officials. The Financial Section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the Independent auditors' report on the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Taft's MD&A can be found immediately following the report of the independent auditors.

The City of Taft's financial statements have been audited by Raul Hernandez & Company, P.C.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Taft for the fiscal year ended September 30, 2018 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

"SERVICE IS OUR BUSINESS"

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The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2018 financial statements to be considered to be fairly presented in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board and other professional promulgations, as applicable.

CITY PROFILE

Location

The City of Taft is a city located in San Patricio County. Located in San Patricio County, Taft is 22 miles from Corpus Christi and about 88 miles south of San Antonio. The City encompasses approximately 4.0 square miles of land within the City's corporate boundary. Taft's population is estimated at about 3,048.

Taft was incorporated as a town in 1929. The City operates under a City Manager form of government.

Services Provided

Services provided by the City under the general governmental functions include public safety (police and fire), streets, sanitation, health and social services, culture recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities operations. A private firm provides solid waste collection and disposal services under a contract with the City. In addition, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses, payments on outstanding debt and reserves.

Blended Component Unit

The City of Taft, Texas had no blended component units.

Discretely Presented Component Unit

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives, recreational and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters in the fiscal year 1999. The Corporation is reported as a discretely component unit. The Taft Economic Development Corporation was created to be a vehicle for economic stimulus for the Taft area. The City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters in the fiscal year 2015. In addition, the City has the Pride of Taft which is utilized for enhancing quality of life thru beautification of city wide cleanups activities. Complete financial statements of the Taft Economic Development Corporation may be obtained at the City's administrative office.

Taft Economic Development Corporation
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Taft Quality Improvement Corporation
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Pride of Taft
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Services provided by the City under the general governmental functions include public safety (police and fire).

Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable, expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's current internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City requires that on or before the end of August, the City Manager submits to the City Council a proposed budget and budget message to the City Council for the fiscal year commencing the following October 1. The budget message is the responsibility of the City Manager. The City Council shall review the proposed budget and make any appropriate changes prior to adopting and publishing the final budget. The budget is legally enacted through passage of an ordinance on or before September 30th. The City Manager is authorized to transfer budgeted amount within departments; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Manager may be authorized, by ordinance and by adoption of the City Council, to expend limited amounts which are included within the budget. Expenditures over this amount require authorization by the City Council.

Budgetary control has been established at the individual fund level. Financial reports are produced showing budget and actual expenditures by line item for the current month and year-to-date and are distributed monthly to City department supervisors as well as to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

Taft's Position in the Region

As the location of some of the last remaining undeveloped coastline adjacent to a deep water channel, the City is actively pursuing opportunities to promote this untapped resource through cooperative efforts with various government agencies and developers.

In addition, the City of Taft is located 12 miles to the northwest of City of Corpus Christi, Texas. As such, our economic development is largely related to providing a high quality of life for the families that reside here. The current population from the 2010 census of 3,048 reflects a drop in population of 348 from the 2000 census of 3,396. Because of the quality of life the City continues to see a steady population growth

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$31,607 compares unfavorably to \$57,051 for Texas.

The following facts reflect Taft's economic condition and outlook:

- Building activity continues to be very strong.
- Total taxable value for all residential and commercial property in the City of Taft was 92.5 million for fiscal year 2017/2018 for a 6 million increase and a 6.93% increase.
- Sales tax collections have increased by more than 14.6% for the most recent year.

Future Economic Outlook

The City of Taft has taken several steps in recent years and continues to move forward on several projects to improve the quality of life by capitalizing on the natural beauty of the area and preserving public access to natural areas.

Cash Management

Idle cash is invested by City officials in certificate of deposits when the interest rates available provide local government investment opportunities while protecting principal and liquidity.

It is the City's Policy that all demand deposits and time deposits are secured by pledged collateral with a market value equal to no less than 100% of the deposits less an amount insured by the FDIC. Evidence of the pledged collateral is periodically obtained at a third party financial institution. Collateral is reviewed to assure the market value of the securities pledged equals or exceeds the related bank balances. All collateral is subject to inspection and audit by the City's independent auditors.

Pension Plan

The City of Taft provides pension benefits for all of its employees except for firefighters through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) from TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 1-800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2018
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to Retirees)	30% of CPI Repeating	30% of CPI Repeating

Contributions: Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. See notes to financial statements for additional information.

Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

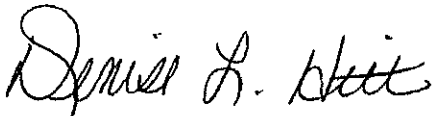
OTHER INFORMATION

Acknowledgments

Appreciation is expressed to each and every City employee who, throughout the past year, has faithfully and diligently served the City and its community. They are to be thanked.

The members of the City Council, and Citizens, are to be thanked for their active participation and support in the operations of the City. I would also like to thank the employees of the City of Taft, Texas, for their assistance in compiling the necessary financial data regarding this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dennis R. Witt". The signature is fluid and cursive, with the first name "Dennis" being the most prominent part.

City Manager

CITY OF TAFT

List of Principal Officials

ELECTED OFFICIALS

Pedro Lopez	Mayor
Leonard Vasquez	Mayor Pro-Tem
Lolo Hernandez	City Council
Donnie S. Riojas	City Council
Felipe Rodriguez III	City Council

APPOINTED OFFICIALS

Denise L. Hitt	City Manager
Mary Alice Sandoval	Finance/HR Director
John D Cornish	Chief of Police
Dan Gibson	Fire Chief
Jose M Sandoval Jr	Director of Public Works
Jennifer Pineda	City Secretary Municipal Court Clerk
Tazh Fonville/Arnulfo Banda	Building Inspector
Carmel Herrera	Municipal Court Judge
Denton Navarro Rocha Bernal Hyde & Zech	City Attorney's

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FINANCIAL SECTION

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Raul Hernandez and Company, P.C.
Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411
Office (361)980-0428 Fax (361)980-1002

Independent Auditors' Report

To the City Council
City of Taft, Texas
P.O. Box 416
Taft, Texas 78390

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Taft, Texas ("the City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Taft's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Taft's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Taft's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Taft, Texas as of September 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, City of Taft, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison information and schedule of the Taft's proportionate share of the net pension liability and schedule of Taft pension contributions, and schedule of the Taft's proportionate share of the net OPEB liability and schedule of Taft OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Taft, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurances on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2019 on our consideration of City of Taft, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Taft's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Taft, Texas's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in blue ink that reads "Raul Hernandez & Company, P.C.".

Raul Hernandez & Company, P.C.

Corpus Christi, TX
May 14, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

This discussion and analysis of the City of Taft's financial performance is intended to provide an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2018. The reader is encouraged to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- As of September 30, 2018, the City of Taft's General Fund reported an ending deficit fund balance of (\$98,241) in the governmental fund types.
- As of September 30, 2018, the City of Taft's Utility Fund reported ending total net position of \$899,699, an increase of \$273,463 with \$288,580 from operations, and a prior period adjustment of (\$15,117).
- The net position of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2018 by \$5,419,955. Of \$5,419,955 total net position, (\$455,471) or (.08%) represents the unrestricted net position.
- As of September 30, 2018, the City of Taft's total combined net position was \$6,319,654 an increase of \$125,089 compared to the prior year total of \$6,194,565.
- As of September 30, 2018, the City of Taft's governmental funds reported combined ending fund balance of \$582,023. Prior period adjustments of \$2,008 were made to increase fund balances to actual.
- The City's total debt decreased by \$306,802 during the year from \$5,561,785 to \$5,254,983.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serve as an introduction to the City of Taft's basic financial statements. The City of Taft's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Taft's finances, in a manner similar to a private-sector business.

CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

The Statement of Net Assets presents information on all of the City of Taft's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Taft is improving or deteriorating. This statement combines and consolidates governmental funds' current financial resources (short-term spend-able resources) with capital assets and long-term obligations. Other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition on the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxed and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities- Most of the City's basic services are reported here, including the police, fire, library, building and inspections, sanitation, code enforcement, parks and recreation and general administration. Property taxes, sales taxes and franchise fee finance most of these activities.
- Business type Activities- the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.
- Discretely Presented Component Unit – The Taft Economic Development Corporation and the Pride of Texas were created to assist in economic development and chamber enhancements.
- Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City has established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and propriety- utilize different accounting guidelines.

- Governmental Funds- the majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provided a detailed short term view of the City's general governmental operations and the basic

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

- By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government's near term operating decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statement.
- The City of Taft maintains individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund and Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated non major fund presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.
- Proprietary Funds- the City charges customers for the services it provides. These services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Because these services benefit both governmental as well as business type functions, their cost has been included in both the governmental and business type activities in the government-wide financial statements.

Notes to the Financial Statements

These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to basic financial statement and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

The City as a Whole- Government-wide Financial Analysis

CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018

The City's combined net assets were \$6.31 million as of September 30, 2018. Analyzing the net assets and net expenses of governmental type activities were \$5.41 million and business-type activities, separately the business type activities net assets are \$.89 million. The analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business type-activities.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, plant assets, machinery, equipment, and furniture); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table I
CITY OF TAFT, TEXAS
CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities	
	2018	2017	2018	2017
Current and Other Assets	1,364,897	1,123,730	917,360	874,810
Capital Assets	5,085,534	5,396,242	5,789,255	5,980,624
Total Assets:	6,450,431	6,519,972	6,706,615	6,855,434
Deferred Outflows of Resources	63,053	140,569	43,985	57,415
Current and Other Liabilities	527,419	460,810	252,507	533,511
Long-Term Liabilities	525,247	586,883	5,566,968	5,756,483
Total Liabilities	1,052,666	1,047,693	5,819,475	6,289,994
Deferred Inflows of Resources	40,864	44,518	31,426	18,185
Net Assets:				
Invested in Capital Assets				
net of Related Debt	5,075,299	5,362,878	544,507	455,561
Restricted	800,126	702,368	-	-
Unrestricted	(455,471)	(496,917)	355,192	170,675
Total Net Assets	5,419,955	5,568,329	899,699	626,236

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

**Table II
CITY OF TAFT, TEXAS
CHANGES IN NET POSITION**

	Governmental Activities		Business Type Activities	
	2018	2017	2018	2017
Revenues:				
Property Taxes	\$ 867,950	\$ 827,218	\$ -	\$ -
Sales Tax	307,547	268,251	-	-
Franchise Taxes	98,055	94,008	-	-
Other Taxes	3,585	2,754	-	-
License and Permits	24,626	29,005		
Intergovernmental	100,012	2,454	-	-
Charges for Services	120,989	126,897	2,428,419	2,530,800
Fines and Forfeitures	42,391	21,734	-	-
Investment Earnings/Other	61	366	-	-
Other Revenue	334,727	501,769	715	-
Total Revenues	1,899,943	1,874,456	2,429,134	2,530,800
Expenses:				
General Government	1,150,639	1,252,611	-	-
Public Safety	873,435	914,630	-	-
Public Works	292,085	336,045	-	-
Parks, Recreation and Culture	189,804	113,583	-	-
Water	-	-	776,038	764,131
Wastewater	-	-	398,096	338,069
Sanitation	-	-	455,932	465,528
Economic Development and Assistance	-	-	-	-
Bond Payments, Principal, and Interest	738	36,265	-	-
Total Expenses	2,506,701	2,653,134	1,630,066	1,567,728
Increase (Decrease) in Net Assets before transfers and special items	(606,758)	(778,678)	799,068	963,072
Transfers	510,488	796,926	(510,488)	(796,926)
Non-operating Revenues/(Expenses)	-	-	-	-
Net Increase (Decrease)	(96,270)	18,248	288,580	166,146
Net Position at Beginning	5,568,330	5,516,171	626,236	458,317
Prior Period Adjustment	(52,104)	33,910	(15,117)	1,773
Net Position at Ending	\$ 5,419,955	\$ 5,568,330	\$ 899,699	\$ 626,236

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

Government Fund Activities

The City's general fund revenues increased when compared to the prior year by 17 percent or \$287,198. The assessed value of the property in the City was \$92.5 million, an increase compared to the prior year of 86.8 million. In addition to ad valorem property taxes, the City collects sales taxes, franchise taxes, beverage taxes and other taxes in lieu of ad valorem taxes.

**Table III
General Fund Revenues
At September 30**

	2018	2017	Increase (Decrease)
Taxes	879,186	839,958	39,228
Licenses and Permits	24,626	29,005	(4,379)
Intergovernmental	100,012	-	100,012
Charges for Services	-	51,625	(51,625)
Fines and Penalties	28,162	21,734	6,428
Other	332,032	134,498	197,534
Total General Revenues	<u>1,364,018</u>	<u>1,076,820</u>	<u>287,198</u>

The most significant governmental expense for the City was in the general administration. The general administration incurred expenditures of \$585,498.

Enterprise Fund Activities

Revenues of the City's Utility Funds were \$2.4 million for the fiscal year ending September 30, 2018. Operating expenses were \$1.6 million for the year, resulting in net revenues of \$799,068 before transfers out is taken into account. The most significant expense of the Utility Fund was \$544,398 for purchased services.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2018, the City of Taft had nearly \$29.5 million invested in a broad range of capital assets, including police and fire equipment building, land, park facilities, roads, bridges, vehicles, and water and sewer lines.

**Table IV
Capital Assets before Depreciation
At September 30**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 10,524	\$ 10,524	\$ -	\$ -	\$ 10,524	\$ 10,524
Buildings	2,708,586	2,702,766	32,668	32,668	2,741,254	2,735,434
Improvements	3,130,596	3,130,596	-	-	3,130,596	3,130,596
Equipment	1,702,235	1,679,719	410,142	407,482	2,112,377	2,087,201
Vehicles	648,293	648,293	-	-	648,293	648,293
Infrastructure	10,631,049	10,592,719	-	-	10,631,049	10,592,719
Construction in Progress	56,658	-	-	-	56,658	-
Water System			2,092,319	2,083,110	2,092,319	2,083,110
Sewer System			8,163,141	8,248,521	8,163,141	8,248,521
Total Capital Assets	<u>\$ 18,887,941</u>	<u>\$ 18,764,617</u>	<u>\$ 10,698,269</u>	<u>\$ 10,771,781</u>	<u>\$ 29,586,210</u>	<u>\$ 29,536,398</u>

Debt

At year-end, the City of Taft had \$5,254,983 in General Certifications of Obligation and Revenue Bonds, notes and capital leases as compared to \$5,561,785 at the end of the prior fiscal year. Table 5 below reflects outstanding long-term debt overall decrease of 6 percent.

**Table V
Outstanding Long-Term Debt
at September 30**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
TWDB Certificate of Obligations - 2010	\$ -	\$ -	\$ 4,622,000	\$ 4,815,000	\$ 4,622,000	\$ 4,815,000
General Certificates of Obligations - 2010	-	-	561,465	626,099	561,465	626,099
Note Payable	-	-	-	-	-	-
Loan Payable	-	-	61,283	106,962	61,283	106,962
Capital Leases	10,235	13,724	-	-	10,235	13,724
Total Outstanding Debt	<u>\$ 10,235</u>	<u>\$ 13,724</u>	<u>\$ 5,244,748</u>	<u>\$ 5,548,061</u>	<u>\$ 5,254,983</u>	<u>\$ 5,561,785</u>

During the current fiscal year, the City of Taft paid principal of \$306,802 on the outstanding debt. The City Charter authorizes the City of Taft to issue bonds, when authorized by the voters or the City Council, for any purpose for which a city may issue bonds under the Constitution and laws of the State of Texas. The Charter precludes the use of bond proceeds for any other purpose other than that for which the bonds were sold.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2018, the governmental funds of the City reported a combined fund balance of \$582,023. This ending total fund balance(s) include a increase in the fund balance of \$187,141 including results of overall operational gain of \$185,133 and a prior period adjustment of \$2,008 in the City's Governmental funds. The ending General Fund balance resulted in a deficit of (\$98,241) with operations resulting in a gain of \$87,377 and a prior period adjustment of \$2,008.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Taft has continued to rebuild and repair after Hurricane Harvey. We have received most of the funding from Insurance and FEMA proceeds due to the hurricane. In 2019-2020, growth and revenue are expected to increase significantly due to a proposed 84 home subdivision and expected groundbreaking on an RV Park. We have continued to make improvements to structures after Hurricane Harvey. The positive outlook for Taft from the growth of several large industrial complexes is excellent.

The Taft Economic Development Corporation, will continue with the downtown revitalization and sidewalk project and will be looking to TXDOT for additional grant money to finish the sidewalks on the East side of Green Avenue along with new planters, benches and lights. Several other grant programs will be rolled out to the business owners in the next fiscal year.

We are almost half way to rehabilitating the 22 miles of streets in the City of Taft. Again, this is being accomplished without accumulating additional debt. We are on tract with our timeline of seven years to complete this project.

Economic growth is expected to continue as many major companies continue to express interest in the Coastal Bend area and have already or are in the process of purchasing other farm land for development purposes. The EDC has seen much interest in the 105 acres in the City and it looks promising that this property will have a tenant in the next budget year.

Housing is still in demand and will continue for some time due to additional sales of land in the Coastal Bend. It is expected that more farm land will be made available for housing or retail development. Taft is a commuters ideal location since it affords quiet urban living but will be minutes away from the many job opportunities that are and will continue to become available.

Homes for sale in Taft makes it a sellers dream market right now. Many dilapidated homes are being purchased and improved which increases the tax base for ad valorem taxes, sales tax, etc. and will escalate the numbers in student enrollment at the Taft ISD. San Patricio county will continue to see growth for many years to come. Thanks to our City and County leaders they have placed the cities in San Patricio County in a strong and positive financial advantage.

The City of Taft expects ad valorem taxes to increase in the 2019-2020 budget year due to most of the hurricane related damage having been completed thereby increasing property values.

Sales tax for 2018-2019 has seen increases every month, with some months being extremely prolific. We feel that this will be a monthly trend in 2019-2020. Several businesses are poised to open within the next few months and the 2018 ballot item to allow the sale of alcohol and mixed beverages, that passed overwhelmingly, will increase revenue for businesses thereby increasing sales tax for the city.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Taft Finance Department, Director of Finance, 501 Green Avenue, Taft, Texas 78390.

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BASIC FINANCIAL STATEMENTS

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CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1

Data Control Codes	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Units
ASSETS				
1010 Cash and Cash Equivalents	\$ 788,440	\$ 385,863	\$ 1,174,303	\$ 124,661
1030 Investments - Current	10,143	-	10,143	84,241
1050 Taxes Receivable, Net	280,886	-	280,886	-
1150 Accounts Receivable, Net	192,701	602,658	795,359	8,384
1300 Due from Other Funds	92,727	(92,727)	-	-
1410 Inventories	-	21,566	21,566	-
Capital Assets:				
1710 Land Purchase and Improvements	10,524	-	10,524	415,920
1720 Infrastructure, Net	3,018,128	-	3,018,128	-
1730 Buildings, Net	1,870,599	-	1,870,599	-
1740 Improvements other than Buildings, Net	-	5,772,947	5,772,947	-
1750 Machinery and Equipment, Net	129,625	16,308	145,933	82,777
1780 Construction in Progress	56,658	-	56,658	-
1000 Total Assets	6,450,431	6,706,615	13,157,046	715,983
DEFERRED OUTFLOWS OF RESOURCES				
1997 Deferred Outflow Related to Pension Plan	58,194	42,001	100,195	-
1998 Deferred Resource Outflow Related to OPEB	4,859	1,984	6,843	-
1500 Total Deferred Outflows of Resources	63,053	43,985	107,038	-
LIABILITIES				
2010 Accounts Payable	124,626	-	124,626	-
2015 Bank Overdraft	109,432	63,171	172,603	-
2020 Wages and Salaries Payable	28,620	11,236	39,856	-
2030 Compensated Absences Payable	25,410	53,127	78,537	-
2035 Sales Tax Payable	-	99,337	99,337	-
2090 Due to Others	1,693	-	1,693	-
2100 Due to Component Unit	44,744	-	44,744	(44,744)
2140 Accrued Interest Payable	22	1,436	1,458	371
2230 Unearned Revenues	192,872	-	192,872	-
2240 Notes Payable - Current	-	24,200	24,200	-
Noncurrent Liabilities:				
2501 Due Within One Year	3,675	261,124	264,799	39,159
2502 Due in More Than One Year	6,560	5,095,487	5,102,047	328,137
2580 Net Pension Liability	451,076	184,243	635,319	-
2585 Net OPEB Liability	63,936	26,114	90,050	-
2000 Total Liabilities	1,052,666	5,819,475	6,872,141	322,923
DEFERRED INFLOWS OF RESOURCES				
2602 Deferred Inflow Related to Pension Plan	40,864	31,426	72,290	-
2500 Total Deferred Inflows of Resources	40,864	31,426	72,290	-
NET POSITION				
3200 Net Investment in Capital Assets	5,075,299	544,507	5,619,806	132,514
Restricted for:				
3810 Restricted for Federal or State Grants	3	-	3	-
3860 Restricted for Debt Service	344,507	-	344,507	-
3890 Restricted for Other Purposes	455,616	-	455,616	-
3900 Unrestricted	(455,471)	355,192	(100,279)	260,547
3000 Total Net Position	\$ 5,419,955	\$ 899,699	\$ 6,319,654	\$ 393,061

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Program Revenues	
Data Control Codes	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
110 General Government	\$ 617,960	\$ 1,687	\$ -
120 Finance	181,740	-	-
130 Municipal Court	49,693	42,391	-
140 Administration	97,381	-	-
160 Legislative	45,259	-	-
170 Tax Collection	16,258	-	-
210 Public Safety	873,435	-	-
260 Animal Control	54,145	-	-
280 Code Enforcement	1,716	-	-
310 Highways and Streets	292,085	65,347	-
410 Welfare	18,990	45,344	-
510 Library	67,498	-	-
520 Parks	179,262	-	-
560 Community Centers	10,542	8,611	-
720 Interest on Debt	738	-	-
Total Governmental Activities	2,506,701	163,380	-
BUSINESS-TYPE ACTIVITIES:			
701 WATER FUND	776,038	1,194,859	-
702 WASTE- WATER FUND	398,096	655,486	-
703 SANITATION FUND	455,932	578,074	-
Total Business-Type Activities	1,630,066	2,428,419	-
TOTAL PRIMARY GOVERNMENT	\$ 4,136,767	\$ 2,591,799	\$ -
Component Unit:			
991 Nonmajor Component Unit	131,593	-	-
TOTAL COMPONENT UNIT	\$ 131,593	\$ -	\$ -

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
5011	Property Taxes, Levied for Debt Service
5120	General Sales and Use Taxes
5170	Franchise Tax
5180	Other Taxes
5190	Penalty and Interest on Taxes
5600	Grants and Contributions
5700	Miscellaneous Revenue
5800	Investment Earnings
	Transfers In (Out)
	Total General Revenues and Transfers
	Change in Net Position
	Net Position - Beginning
	Prior Period Adjustment
	Net Position - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	Nonmajor Component Units
(616,273)	-	(616,273)	-
(181,740)	-	(181,740)	-
(7,302)	-	(7,302)	-
(97,381)	-	(97,381)	-
(45,259)	-	(45,259)	-
(16,258)	-	(16,258)	-
(873,435)	-	(873,435)	-
(54,145)	-	(54,145)	-
(1,716)	-	(1,716)	-
(226,738)	-	(226,738)	-
26,354	-	26,354	-
(67,498)	-	(67,498)	-
(179,262)	-	(179,262)	-
(1,931)	-	(1,931)	-
(738)	-	(738)	-
(2,343,321)	-	(2,343,321)	-
-	418,821	418,821	-
-	257,390	257,390	-
-	122,142	122,142	-
-	798,353	798,353	-
(2,343,321)	798,353	(1,544,968)	-
-	-	-	(131,593)
-	-	-	(131,593)
517,265	-	517,265	-
323,594	-	323,594	-
307,547	-	307,547	61,509
98,055	-	98,055	-
3,585	-	3,585	-
27,091	-	27,091	-
100,012	-	100,012	-
359,353	715	360,068	123,019
61	-	61	566
510,488	(510,488)	-	-
2,247,050	(509,773)	1,737,277	185,094
(96,271)	288,580	192,309	53,501
5,568,330	626,236	6,194,566	339,560
(52,104)	(15,117)	(67,221)	-
\$ 5,419,955	\$ 899,699	\$ 6,319,654	\$ 393,061

CITY OF TAFT, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1010 Cash and Cash Equivalents	\$ 47,548	\$ 326,375	\$ 414,517	\$ 788,440
1030 Investments - Current	10,143	-	-	10,143
1050 Taxes Receivable	159,904	135,766	-	295,670
1051 Allowance for Uncollectible Taxes (credit)	(7,995)	(6,789)	-	(14,784)
1150 Accounts Receivable Net	184,683	-	8,018	192,701
1300 Due from Other Funds	203,226	18,133	114,362	335,721
1000 Total Assets	<u>\$ 597,509</u>	<u>\$ 473,485</u>	<u>\$ 536,897</u>	<u>\$ 1,607,891</u>
LIABILITIES				
2010 Accounts Payable	\$ 124,626	\$ -	\$ -	\$ 124,626
2015 Bank Overdraft	-	-	109,432	109,432
2020 Wages and Salaries Payable	28,620	-	-	28,620
2080 Due to Other Funds	152,979	-	90,015	242,994
2090 Due to Others	-	-	1,693	1,693
2100 Due to Component Unit	44,744	-	-	44,744
2230 Unearned Revenues	192,872	-	-	192,872
2000 Total Liabilities	<u>543,841</u>	<u>-</u>	<u>201,140</u>	<u>744,981</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	151,909	128,978	-	280,887
2600 Total Deferred Inflows of Resources	<u>151,909</u>	<u>128,978</u>	<u>-</u>	<u>280,887</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	3	3
3480 Retirement of Long-Term Debt	-	344,507	-	344,507
3490 Other Restricted Fund Balance	-	-	455,616	455,616
3600 Unassigned Fund Balance	(98,241)	-	(119,862)	(218,103)
3000 Total Fund Balances	<u>(98,241)</u>	<u>344,507</u>	<u>335,757</u>	<u>582,023</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 597,509</u>	<u>\$ 473,485</u>	<u>\$ 536,897</u>	<u>\$ 1,607,891</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds	\$ 582,023
The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net position.	-0-
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	5,372,715
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase (decrease) net position.	164,873
Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of \$(451,076), a deferred resource inflow in the amount of \$(40,864), and a deferred resource outflow in the amount of \$58,194. This resulted in an increase/(decrease) in net position by \$(433,746).	(433,746)
Included in the noncurrent assets/(liabilities) is the recognition of the City's net OPEB asset/(liability) required by GASB 75 in the amount of \$(63,936), a deferred resource inflow in the amount of \$-0-, and a deferred resource outflow in the amount of \$4,859. This resulted in an increase/(decrease) in net position by \$(59,077).	(59,077)
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(462,287)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	255,455
Net Position of Governmental Activities	\$ 5,419,955

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT C-3

Data Control Codes	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 421,097	\$ 294,920	\$ -	\$ 716,017
5111 Taxes Delinquent	83,320	28,674	-	111,994
5120 General Sales and Use Taxes	246,038	-	61,509	307,547
5170 Franchise Tax	98,055	-	-	98,055
5177 Hotel/Motel Tax	3,585	-	-	3,585
5190 Penalty and Interest on Taxes	27,091	-	-	27,091
5200 Licenses and Permits	24,626	-	-	24,626
5300 Intergovernmental Revenue and Grants	100,012	-	-	100,012
5400 Charges for Services	-	-	65,347	65,347
5510 Fines	28,162	-	8,360	36,522
5610 Investment Earnings	61	-	-	61
5700 Other Revenue	331,971	-	61,267	393,238
5020 Total Revenues	<u>1,364,018</u>	<u>323,594</u>	<u>196,483</u>	<u>1,884,095</u>
EXPENDITURES:				
Current:				
General Government:				
0110 General Government	585,498	-	-	585,498
0120 Finance	181,740	-	-	181,740
0130 Municipal Court	49,693	-	-	49,693
0140 Administration	97,381	-	-	97,381
0160 Legislative	45,259	-	-	45,259
0170 Tax Collection	16,258	-	-	16,258
Public Safety:				
0210 Police	527,319	-	11,211	538,530
0220 Fire Protection	1,310	-	44,260	45,570
0240 Emergency Medical Service	204,000	-	-	204,000
0260 Animal Control	54,145	-	-	54,145
0280 Code Enforcement	1,716	-	-	1,716
Public Works:				
0310 Highways and Streets	103,265	-	57,322	160,587
Health and Welfare:				
0410 Welfare	-	-	18,990	18,990
Culture and Recreation:				
0510 Library	67,498	-	-	67,498
0520 Parks	130,815	-	-	130,815
0560 Community Centers	10,542	-	-	10,542
Debt Service:				
0710 Principal on Debt	3,489	-	-	3,489
0720 Interest on Debt	620	-	-	620
0790 Other Debt Service	-	119	-	119
6030 Total Expenditures	<u>2,080,548</u>	<u>119</u>	<u>131,783</u>	<u>2,212,450</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(716,530)</u>	<u>323,475</u>	<u>64,700</u>	<u>(328,355)</u>
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	3,000	-	-	3,000
7915 Transfers In	800,907	-	-	800,907
8911 Transfers Out (Use)	-	(290,419)	-	(290,419)
7080 Total Other Financing Sources (Uses)	<u>803,907</u>	<u>(290,419)</u>	<u>-</u>	<u>513,488</u>
1200 Net Change in Fund Balances	87,377	33,056	64,700	185,133
0100 Fund Balance - October 1 (Beginning)	(187,626)	311,451	271,057	394,882
1300 Prior Period Adjustment	2,008	-	-	2,008
3000 Fund Balance - September 30 (Ending)	<u>\$ (98,241)</u>	<u>\$ 344,507</u>	<u>\$ 335,757</u>	<u>\$ 582,023</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 185,133
The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.	-0-
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to increase (decrease) the change in net position.	164,873
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$71,138. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$73,450). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$34,599. The result of these changes is to increase/(decrease) the change in net position by \$32,287.	32,287
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$1,729. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$1,472). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense increased/(decreased) the change in net position by (\$5,222). The result of these changes is to increase/(decrease) the change in net position by (\$4,965).	(4,965)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(462,287)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	(11,311)
Change in Net Position of Governmental Activities	\$ (96,271)

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

Business-Type Activities - Enterprise Funds				
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 265,359	\$ 120,504	\$ 385,863
Accounts Receivable Net	291,815	160,986	149,857	602,658
Inventories	21,566	-	-	21,566
Total Current Assets	313,381	426,345	270,361	1,010,087
Noncurrent Assets:				
Capital Assets:				
Buildings	28,970	-	3,698	32,668
Accumulated Depreciation - Buildings	(28,970)	-	(3,698)	(32,668)
Improvements other than Buildings	2,092,319	8,163,140	-	10,255,459
Accumulated Depreciation - Other Improvements	(1,614,982)	(2,867,530)	-	(4,482,512)
Furniture and Equipment	143,770	206,098	60,273	410,141
Accumulated Depreciation - Furniture & Equipment	(142,837)	(191,523)	(59,473)	(393,833)
Total Noncurrent Assets	478,270	5,310,185	800	5,789,255
Total Assets	791,651	5,736,530	271,161	6,799,342
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	19,895	11,053	11,053	42,001
Deferred Resource Outflow Related to OPEB	940	522	522	1,984
Total Deferred Outflows of Resources	20,835	11,575	11,575	43,985

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds			
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
LIABILITIES				
Current Liabilities:				
Bank Overdraft	63,171	-	-	63,171
Wages and Salaries Payable	4,279	4,229	2,728	11,236
Compensated Absences Payable	52,160	340	627	53,127
Sales Tax Payable	-	-	99,337	99,337
Due to Other Funds	41,853	4,848	46,026	92,727
Accrued Interest Payable	66	1,370	-	1,436
Notes Payable - Current	24,200	-	-	24,200
Bonds Payable - Current	-	261,124	-	261,124
Total Current Liabilities	185,729	271,911	148,718	606,358
Noncurrent Liabilities:				
Bonds Payable - Noncurrent	-	4,922,341	-	4,922,341
Loans Payable - Noncurrent	37,083	-	-	37,083
Other Long Term Debt Payable - Noncurrent	136,063	-	-	136,063
Net Pension Liability	87,273	48,485	48,485	184,243
Net OPEB Liability	12,370	6,872	6,872	26,114
Total Noncurrent Liabilities	272,789	4,977,698	55,357	5,305,844
Total Liabilities	458,518	5,249,609	204,075	5,912,202
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan	14,886	8,270	8,270	31,426
Total Deferred Inflows of Resources	14,886	8,270	8,270	31,426
NET POSITION				
Net Investment in Capital Assets	416,987	126,720	800	544,507
Unrestricted	(77,905)	363,506	69,591	355,192
Total Net Position	\$ 339,082	\$ 490,226	\$ 70,391	\$ 899,699

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT D-2

	Business-Type Activities - Enterprise Funds			
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
OPERATING REVENUES:				
Charges for Services	\$ 1,194,859	\$ 655,486	\$ 578,074	\$ 2,428,419
Other Revenue	715	-	-	715
Total Operating Revenues	<u>1,195,574</u>	<u>655,486</u>	<u>578,074</u>	<u>2,429,134</u>
OPERATING EXPENSES:				
Personnel Services - Salaries and Wages	183,869	133,546	89,166	406,581
Purchased Professional & Technical Services	544,398	73,636	366,566	984,600
Depreciation	42,915	166,023	200	209,138
Interest Expense	4,856	24,891	-	29,747
Total Operating Expenses	<u>776,038</u>	<u>398,096</u>	<u>455,932</u>	<u>1,630,066</u>
Income Before Transfers	<u>419,536</u>	<u>257,390</u>	<u>122,142</u>	<u>799,068</u>
Nonoperating Transfers In	-	290,418	-	290,418
Transfers Out (Use)	<u>(415,540)</u>	<u>(335,117)</u>	<u>(50,249)</u>	<u>(800,906)</u>
Change in Net Position	3,996	212,691	71,893	288,580
Total Net Position - October 1 (Beginning)	354,108	279,219	(7,091)	626,236
Prior Period Adjustment	<u>(19,022)</u>	<u>(1,684)</u>	<u>5,589</u>	<u>(15,117)</u>
Total Net Position - September 30 (Ending)	<u>\$ 339,082</u>	<u>\$ 490,226</u>	<u>\$ 70,391</u>	<u>\$ 899,699</u>

The notes to the financial statements are an integral part of this statement.

CITY OF TAFT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds			
	WATER FUND	WASTE- WATER FUND	SANITATION FUND	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>				
Cash Received from User Charges	\$ 1,148,805	\$ 373,503	\$ 500,314	\$ 2,022,622
Cash Payments to Employees for Services	(189,153)	(136,484)	(85,117)	(410,754)
Cash Payments for Suppliers	(549,256)	(98,527)	(366,566)	(1,014,349)
Net Cash Provided by Operating Activities	410,396	138,492	48,631	597,519
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Increase (Decrease) in Short-term Loans	-	290,418	-	290,418
Operating Transfer Out	(415,540)	(335,117)	(50,249)	(800,906)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(415,540)	(44,699)	(50,249)	(510,488)
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Acquisition of Capital Assets	(10,867)	(5,900)	(1,000)	(17,767)
Net Increase (Decrease) in Cash and Cash Equivalents	(16,011)	87,893	(2,618)	69,264
Cash and Cash Equivalents at the Beginning of the Year	(47,160)	177,466	123,122	253,428
Cash and Cash Equivalents at the End of the Year	\$ (63,171)	\$ 265,359	\$ 120,504	\$ 322,692
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>				
Operating Income	\$ 419,536	\$ 257,390	\$ 122,142	\$ 799,068
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:				
Depreciation	42,915	166,023	200	209,138
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (Increase) in Receivables	(19,244)	(6,085)	(1,703)	(27,032)
Increase (Decrease) in Accounts Payable	(27,525)	(275,898)	(76,057)	(379,480)
Increase (Decrease) in Payroll Deductions	(5,286)	(2,938)	4,049	(4,175)
Net Cash Provided by Operating Activities	\$ 410,396	\$ 138,492	\$ 48,631	\$ 597,519

The notes to the financial statements are an integral part of this statement.

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NOTES TO THE FINANCIAL STATEMENTS

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CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Taft, Texas, (the “City”) was incorporated in 1890 under the provisions of the laws for the State of Texas. The City operates under a charter under a Home-Rule Charter, which was adopted on October 5, 1951, and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administration services. Other services include utilities and airport operations. The City operates with a Council-Manager type of government where the Mayor and four Council members are elected on a rotating schedule on a ward basis with 2 members for Ward 1 and 2 members for Ward 2.

Other Post-Employment Benefits (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City’s plan (OPEB Plan) and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

The accounting policies of the City conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant policies.

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole presenting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and changes in net position of the City. These statements are prepared using, the accrual basis of accounting. Separate rows and columns are used in the government-wide statements to distinguish between governmental activities and business-type activities, with a total column for the primary government.

B. SCOPE OF REPORTING ENTITY

The City has used the criteria detailed in GASB statement No. 14, “*The Financial Reporting Entity* and GASB Statement No. 61, *The Financial Reporting Entity; Omnibus an amendment of GASB Statements No. 14 and No. 34*” to determine whether or not certain entities should be included in the accompanying financial statements. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Based on these criteria, the City has identified the following as Discretely Presented Component Units.

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

The City of Taft, Texas, Taft Quality Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas by providing financing for the promotion and development of new and expanded business enterprises. Revenues are provided primarily with funds derived from a one-fourth of one percent sales and use tax approved by the voters.

The financial statements are formatted to allow the user to clearly distinguish between the primary government and its component units.

C. FUND FINANCIAL STATEMENTS

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

The City has reported the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund -- The fund accounts for taxes collected and the repayment of principal and interest of debt.

The City has reported the following major proprietary funds:

Utility Fund - The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to whether a particular type of transaction will be recorded in the financial statements. The economic resources measurement focus recognizes all resources and obligations and the changes in them. The current financial resources measurement focus recognizes only current resources and obligations and transactions affecting current resources and obligations. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of account. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange like transactions are recognized in accordance with the requirements specific to the class of nonexchange transactions. For the government-wide financial statements prepared on the accrual basis, property tax revenues are recognized in the period for which the taxes are levied.

Fund financial statements – government funds

The fund financial statements for the government funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus affects the accounting and reporting treatment of capital assets and long-term liabilities. The capital assets and long-term liabilities of the governmental activities are not recorded on the balance sheet of the fund financial statements of the governmental funds. Transactions for the purchase of assets, the issuance of debt, and the payment of debt principal are reflected in the governmental funds, but they are reported on the statement of revenues, expenditures, and changes in fund balances as capital outlay and debt service principal expenditures and proceeds from debt.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available and recognizes expenditures in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues of the City are considered susceptible to accrual except for revenue from delinquent property taxes receivable, revenue from fines and revenue from fines.

While the City expects all taxes on real property to ultimately be collectible, the bulk of delinquent property taxes receivable at the end of the year are not anticipated to be collected soon enough thereafter to be used to pay liabilities of current period. Therefore, revenue from delinquent property taxes receivable is not recognized in the fund financial statements until they are considered available when collected during the current period of within 60 days of the end of the current fiscal period.

Fines receivable but not past due at the end of the fiscal year may be subsequently reduced when the offender attends a defensive driving course, provides proof of insurance, has the offense dismissed by the municipal court, or serves jail time. Current fines receivable thus do not meet the measurability criterion required to be susceptible to accrual. A significant portion of past due fines receivable is not anticipated to be collected enough to meet the criterion that the revenue be considered available.

Fund financial statements – proprietary funds

The fund financial statements for the proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting and are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net position and cash flows. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

E. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and debt service fund. The other special revenue funds do not have appropriated budgets since other means control the use of these resources and sometimes span a period of more than one fiscal year.

The appropriated budgets are prepared by fund and function. Any revisions that alter the total appropriations of any fund must be approved by City Council. All budget amounts presented reflect the original budget and the final amended budget, which has been adjusted for legally authorized revisions or appropriations to the original budgets during the fiscal year. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

- a. Prior to August 6th each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
- b. Advertised public hearings are conducted.
- c. The budget is required to be approved by September 20th.
- d. The tax rates are approved after the budget has been approved.
- e. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

F. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2018.

G. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for purposes of the statements of cash flows represent demand accounts and petty cash. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

H. INVESTMENTS

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual bonds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

I. PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

J. RECEIVABLES

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Within the governmental fund financial statements, long-term advances and long-term receivables are reflected as unspendable fund balance indicating they do not constitute available expendable resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is management's best estimate of the amount of credit losses based on account delinquencies and historical write-off expense.

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled has been included in the financial statements and has been accrued in the proprietary funds to record the estimated amount of revenues earned but not billed as of the end of the fiscal year. The estimate is based on the pro rata number of days in the billing cycle before and after the fiscal year end.

K. INVENTORY

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

L. INTER-FUND RECEIVABLE AND PAYABLES

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

M. TRANSACTIONS BETWEEN FUNDS

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

O. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-50 Years
Water and Sewer System	5-50 Years
Infrastructure	10-50 Years
Machinery and Equipment	3-10 Years
Improvements	10-50 Years
Vehicles	3-10 Years

P. COMPENSATED ABSENCES

In proprietary fund types, accumulated unpaid compensated absences are accrued when incurred. The accruals are reported as liabilities and expenses for the year incurred. The liability in the governmental fund types is recorded only in the Government-wide Financial Statements. The amount expected to be paid from current resources is not considered to be significant. The City allows employees to accumulate an unlimited amount of vacation and sick leave. Applicable liabilities in the governmental wide net assets and in the proprietary fund have been established to reflect these liabilities.

Q. LONG-TERM DEBT

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses on proprietary fund refunding and on the government-wide financial statements are reported as deferred inflows or outflows and are amortized over the term of the lesser of the new bonds or the refunded bonds using the effective interest method. Bond issuance costs are recognized as expenditures/expenses when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Bond issuance costs are shown as debt service expenditures.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

R. FUND EQUITY

In the government-wide financial statements and proprietary funds financial statements, net position is classified in the following categories:

Net assets invested in capital assets

This category represents the net carrying value of all capital assets, reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction or improvement of these assets.

Restricted

The restricted component of net position represents restricted assets reduced by liabilities related to those assets. This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted

This category is the “residual” component of net position. It consists of net position that does not meet the definition of “restricted” or “net invested in capital assets.”

In the governmental fund financial statements, fund balances are classified in the following categories:

The *nonspendable* fund balance includes the portion of net resources that cannot be spend because of their form or because they must be maintained intact. Resources not in spendable form include inventories and prepaid items, long-term advances, long-term receivable, and nonfinancial assets held for resale.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints that are imposed by the highest level of decision making authority, City Council. City Council is required to take formal action by ordinance or resolution to establish, modify, or rescind a fund balance commitment. Committed funds incorporate contractual obligations constraints to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council action. The residual fund balance that is not Restricted or Committed in governmental funds except the General Fund is assigned.

The *unassigned* fund balance represents the spendable net resources that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned fund balance.

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

S. SPENDING PRIORITIZATION IS USING AVAILABLE RESOURCES

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong at the 25% general fund policy level. The General Fund will need to re-build with future revenues.

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The Council may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

T. PROGRAM REVENUES AND INDIRECT EXPENSES

The government-wide statement of activities is presented in a format that identifies the net cost of the City's individual functions. The expense of each function are reduced by the functions program revenues. Program revenues are revenues which derive directly from the program itself and include charges for services, program-specific operating grants and contributions, and program specific capital grants and contributions. Some governmental functions such as administration and finance are in essence indirect expenses of other functions. Governments are not required to allocate those indirect expenses to other functions, but if they do, indirect expenses should be presented in a separate column from direct expenses. The City has chosen not to allocate those indirect expenses.

U. OPERATING AND NONOPERATING REVENUES AND EXPENSES

The City's policy in distinguishing proprietary fund operating and nonoperating revenues and expenses follows the guidance for distinguishing types of cash flows. Transactions for capital and related financing activities, noncapital financing activities, or investing activities are normally not treated as operating revenues or expenses.

V. ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principle requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, service lines and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

W. NET PENSION LIABILITY

For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due.

Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

X. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City has one item that qualifies for reporting in this category, which is related to the City's net pension liability and is reported on the government-wide statements of net position. This deferred outflow include City contributions to the retirement systems contributed subsequent to the measurement date of the net pension liability, as of September 30, 2018, the City's deferred outflows totaled \$107,038.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has two items that qualify for reporting in this category, one of which is reported on the government wide statements of net position and the other reported on the balance sheet at the governmental fund level.

Government-wide statements

One is the deferred inflow related to the net position liability and is the difference between expected and actual economic experiences and changes in actual earnings. This is amortized over subsequent accounting periods as determined by the actuary. As of September 30, 2018, the City's deferred inflow totaled \$72,290.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2018, the City's deferred inflowed totaled \$280,887.

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 DEPOSITS AND INVESTMENT

At September 30, 2018, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,174,303 and the bank balance was \$1,334,613. The City's cash deposits at September 30, 2018 and during the period ended September 30, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

A. Investments

As of September 30, 2018, the City had no investments:

Investment Maturities (In Years)

Investment Type	Fair Value	Less than 1	1 to 2	2 to 3
Investment Pools:				
N/A	-	-	-	-
Total Fair Value	\$ -	\$ -	\$ -	\$ -

Interest Rate Risk- In accordance with state law and City policy, the City does not purchase any investments with maturities greater than 10 years.

Credit Risk- In accordance with state law and the City's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at lease A-1 or P-1, and investments in obligations from other states, municipalities, countries, etc. must be rated at least A. The City's investments in investment pools were rated AAA.

Concentration of Credit Risk- The City does not place a limit on the amount the City may invest in any one issuer. The City does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a custodial credit risk.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

Foreign Currency Risk – This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy – The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 AD VALOREM PROPERTY TAXES

Property taxes are levied on October 1 bases on assessed value of property as of January 1, for all real and personal property located in the City. Taxes are due in January of the following year and become delinquent on February 1. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately impose.

Ad valorem taxes of \$734,177 were assessed on property values totaling \$92,538,176 using a tax rate of \$0.813376 (\$0.556548 for general operations and \$0.256828 for debt service) per \$100 assessed value. Additional Ad valorem taxes of \$76,890 were assessed on disannexed property with values totaling \$20,570,198 using a tax rate of \$0.375790 for debt service per \$100 assessed value.

Appraised values are determined by the San Patricio County Appraisal District; approved by the San Patricio County Appraisal Review Board; and certified by the Chief Appraiser. The city does not offer a discount or early payment of taxes. The City's taxes are billed and collected by the San Patricio County Tax Assessor Collector.

NOTE 4 RECEIVABLES AND PAYABLES

Receivables are recorded net of allowance for uncollectible accounts as follows:

Receivables at September 30, 2018, were as follows:

	Property Taxes	Due From Other Funds	Other	Total Receivables
Governmental Activities:				
General Fund	\$ 151,909	\$ 203,226	\$ 184,683	\$ 539,818
Major Governmental Funds	128,978	18,133	-	147,111
Non-major Governmental Funds	-	114,362	8,018	122,380
Total - Governmental Activities	<u>\$ 280,887</u>	<u>\$ 335,721</u>	<u>\$ 192,701</u>	<u>\$ 809,309</u>

Payables at September 30, 2018, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Total Payables
Governmental Activities:					
General Fund	\$ 124,625	\$ 28,620	\$ 152,979	\$ 44,744	\$ 350,968
Major Governmental Fund	-	-	-	-	-
Non-major Governmental Fund	109,432	-	90,015	1,693	201,140
Total - Governmental Activities	<u>\$ 234,057</u>	<u>\$ 28,620</u>	<u>\$ 242,994</u>	<u>\$ 46,437</u>	<u>\$ 552,108</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 5 CAPITAL ASSETS

Capital Assets for governmental activities are as follows:

	Beginning Balance October 1, 2017	Additions	Deletions	Ending Balance September 30, 2018
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 10,524	\$ -	\$ -	\$ 10,524
Construction in Progress	-	56,658	-	56,658
Total Capital assets, not being depreciated	<u>10,524</u>	<u>56,658</u>	<u>-</u>	<u>67,182</u>
Capital Asset being depreciated:				
Buildings	2,702,766	31,623	(25,803)	2,708,586
Improvements	3,130,596	-	-	3,130,596
Equipment	1,679,719	34,772	(12,255)	1,702,235
Vehicles	648,293	-	-	648,293
Infrastructure	10,592,719	38,330	-	10,631,049
Total capital assets, being depreciated	<u>18,754,093</u>	<u>104,725</u>	<u>(38,058)</u>	<u>18,820,760</u>
Less accumulated depreciation for:				
Buildings	(1,765,707)	(69,740)	25,803	(1,809,645)
Improvements	(2,080,674)	(78,265)	-	(2,158,939)
Equipment	(1,618,696)	(13,472)	2,451	(1,629,716)
Vehicles	(576,086)	(15,101)	-	(591,187)
Infrastructure	(7,327,211)	(285,710)	-	(7,612,921)
Total accumulated depreciation	<u>(13,368,374)</u>	<u>(462,287)</u>	<u>28,254</u>	<u>(13,802,407)</u>
Total capital assets being depreciated, net	5,385,719	(357,563)	(9,804)	5,018,352
Governmental activities capital assets, net	<u>\$ 5,396,243</u>	<u>\$ (300,905)</u>	<u>\$ (9,804)</u>	<u>\$ 5,085,534</u>

Depreciation expense was charged as follows:

Governmental Activities:	
General Government and Administration	\$ 93,800
Public Works - Street Department	194,456
Parks and Recreation	56,247
Public Safety - Police Department	47,195
Public Safety - Fire Department	70,590
Total Depreciation Expense - Governmental Activities	<u>\$ 462,287</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Capital Assets for Business-type activities are as follows:

	Beginning Balance October 1, 2017	Additions	Deletions	Ending Balance September 30, 2018
Business-type Activities				
Capital Assets, being depreciated				
Buildings	32,668	-	-	32,668
Equipment	407,482	2,660	-	410,142
Water System	2,083,110	9,209	-	2,092,319
Sewer System	8,248,521	5,900	(91,280)	8,163,141
Total capital assets, being depreciated	<u>10,771,781</u>	<u>17,769</u>	<u>(91,280)</u>	<u>10,698,269</u>
Less accumulated depreciation for:				
Buildings	(32,668)	-	-	(32,668)
Equipment	(391,015)	(2,820)	-	(393,835)
Water System	(1,572,398)	(42,583)	-	(1,614,981)
Sewer System	(2,795,470)	(163,340)	91,280	(2,867,530)
Total accumulated depreciation	<u>(4,791,552)</u>	<u>(208,743)</u>	<u>91,280</u>	<u>(4,909,014)</u>
Total capital assets, being depreciated, net	<u>5,980,229</u>	<u>(190,974)</u>	<u>-</u>	<u>5,789,255</u>
Business-type activities capital assets, net	<u>\$ 5,980,229</u>	<u>\$ (190,974)</u>	<u>\$ -</u>	<u>\$ 5,789,255</u>

Depreciation expense was charged as follows:

Business-type Activities:	
Water System	42,583
Sewer System	163,340
Machinery and Equipment/Buildings	2,820
Total Depreciation Expense - Business-type Activities	<u>208,743</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 6 INTERFUND TRANSACTIONS AND BALANCES

Inter-fund balances at September 30, 2018 consisted of the following individual fund balances:

	Due From Other Funds	Due To Other Funds
General Fund:		
General Fund	\$ 24,565	\$ 24,565
Special Revenue Fund	85,933	114,362
Debt Service Fund	-	14,051
Enterprise Funds	92,727	-
Total General Fund	<u>203,226</u>	<u>152,979</u>
Special Revenue Fund:		
General Fund	114,362	85,933
Debt Service fund	-	4,082
	<u>114,362</u>	<u>90,015</u>
Debt Service:		
General Fund	14,051	-
Special Revenue Fund	4,082	-
	<u>18,133</u>	<u>-</u>
Enterprise Funds:		
General Fund	-	92,727
	<u>-</u>	<u>92,727</u>
Total	<u>\$ 335,721</u>	<u>\$ 335,721</u>

NOTE 7 INTERFUND TRANSFERS

The inter-fund balances at September 30, 2018 are generally short-term loans to cover temporary cash flows and reimbursements for various funds.

Inter-fund transfers during the year ended September 30, 2018 were as follows:

Transfer In	General Fund	Debt Service Fund	Special Revenue Funds	Utility Fund	Total
Utility Fund	\$ 800,907	\$ -	\$ -	\$ -	\$ 800,907
General Fund	-	-	-	-	-
Debt Service Fund	-	-	-	290,418	290,418
Special Revenue Fund	-	-	-	-	-
Total	<u>800,907</u>	<u>-</u>	<u>-</u>	<u>290,418</u>	<u>1,091,325</u>
Less Transfers	-	(290,418)	-	(800,907)	(1,091,325)
Net Transfers	<u>\$ 800,907</u>	<u>\$ (290,418)</u>	<u>\$ -</u>	<u>\$ (510,488)</u>	<u>\$ -</u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 8 LONG-TERM DEBT

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on the pledge of the net revenues of the water and sewer system.

The Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts. Management of the City believes that it is in the compliance with all significant financial requirements as of September 30, 2018.

Long-term debt at September 30, 2018, is composed of the following items:

General Obligation Bonds – Payable out of the Utility System through ad valorem taxes:

\$5,780,000 Series 2010 combination tax and surplus revenue certificates of obligation due in annual installments of \$192,000 to \$193,000 with a final payment of \$193,000 on March 1, 2042; zero percent interest	\$ 4,622,000
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\$1,000,000 Series 2010 certificates of obligation due in annual installments of \$49,993 to \$93,399 through March 15, 2025; interest at 5.400 percent.	\$ 561,465
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Capital Leases

Payable out of the General Fund	\$ 10,235
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Notes Payable

Payable out of the Utility Fund	\$ 61,283
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Total long-term debt	<u>\$5,254,983</u>
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CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

The following is a summary of long-term debt activity for September 30, 2018.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and leases payable					
Capital Leases Payable	\$ 13,724	\$ -	\$ 3,489	\$ 10,235	\$ 3,675
Total bonds and leases payable	13,724	-	3,489	10,235	3,675
Other long-term liabilities					
Accumulated compensated absences	19,640	10,076	4,306	25,411	-
Net pension liability	553,521	-	102,445	451,076	-
Net OPEB liability	-	63,936	-	63,936	-
Total other long-term liabilities	573,161	74,012	106,751	476,487	-
Total Governmental Activities	\$ 586,885	\$ 74,012	\$ 110,240	\$ 486,722	\$ 3,675

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds and leases payable					
TWDB Certificates of Obligation Bonds 2010	\$ 4,815,000	\$ -	\$ 193,000	\$ 4,622,000	\$ 193,000
Certificate of Obligation Bonds 2010	626,099	-	64,634	561,465	68,124
Total bonds and leases payable	5,441,099	-	257,634	5,183,465	261,124
Other long-term liabilities					
Accumulated compensated absences	31,955	15,807	15,809	31,953	-
Notes Payable	106,962	-	45,679	61,283	24,200
Net pension liability	226,087	-	41,844	184,243	-
Net OPEB liability	-	26,115	-	26,115	-
Total other long-term liabilities	365,004	41,922	103,332	303,594	24,200
Total Business-type Activities	\$ 5,806,103	\$ 41,922	\$ 360,966	\$ 5,487,059	\$ 285,324

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

The annual requirements for bonds for years subsequent to September 30, 2018, are as follows:

Year Ending September 30	Governmental Activities General/Certificate Obligations/Notes Payable			Business-type Activities Revenue Bonds Loan Payable		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ -	\$ -	\$ -	\$ 285,324	\$ 31,751	\$ 317,075
2020	-	-	-	290,624	26,352	316,976
2021	-	-	-	279,943	20,903	300,846
2022	-	-	-	272,767	16,523	289,290
2023	-	-	-	277,075	12,099	289,174
Thereafter	-	-	-	3,839,015	9,958	3,848,973
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,244,748</u>	<u>\$ 117,586</u>	<u>\$ 5,362,334</u>

NOTE 9 CAPITAL LEASES PAYABLE

The City is obligated under certain lease agreement which have been classified as capital leases. Property under capital lease consists of equipment totaling \$ 14,850. Accumulated depreciation of \$6,600 has been recorded against the assets under capital lease. The leases are payable out of the general fund. Capital lease obligations at September 30, 2018 are composed of the following:

Governmental Activities Capital Lease Payable:

Lease payable to Prosperity Bank for a 2016 Dodge Ram;
Annual installments of \$4,109 including principal and interest through
May 15, 2021; interest rate of 4.99 percent \$10,235

Capital lease future payments are as follows:

Year Ending September 30	Governmental Activities Capital Leases Payable			Business-type Activities Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 3,675	\$ 434	\$ 4,109	\$ -	\$ -	\$ -
2020	3,866	243	4,109	-	-	-
2021	2,694	51	2,745	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
Thereafter	-	-	-	-	-	-
Total	<u>\$ 10,235</u>	<u>\$ 728</u>	<u>\$ 10,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 10 OPERATING LEASES

The City entered into a lease agreement with NDS Leasing to provide copying machines. Total costs for the leases were \$16,137 for the year ended September 30, 2018.

The future minimum lease payments are as follows:

Year Ending September 30	Total
2019	\$ 16,137
2020	16,137
2021	16,137
2022	5,379
2023	<u>-</u>
Total	<u>\$ 53,791</u>

NOTE 11 FUND BALANCE RESTRICTED OR COMMITTED TO OTHER PURPOSES

Some fund balance restrictions and commitments have been grouped together under the heading of other or various purposes. Those amounts are detailed below:

Restricted Fund Balance:	
Federal of State Funds Grant Restriction	\$ 3
Retirement of Long-Term Debt	344,507
Other Restricted Fund Balance	455,616
Unassigned Fund Balance	<u>(218,103)</u>
Total Fund Balance	<u><u>\$ 582,023</u></u>

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 12 PENSION PLAN

A. Plan Description

The City of Taft participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan Provisions:

The plan provisions are adopted by the governing body of the City of Taft, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2018
Employee Deposit Rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to Retirees)	30% of CPI Repeating	30% of CPI Repeating

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	90
Active employees	24
Total	<u>127</u>

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Taft were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Taft were 14.47% and 16.05% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$139,238 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year

Investment Rate of Return 6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ 3,162,612	\$ 2,383,004	\$ 779,608
Changes for the year:			
Service cost	182,378	-	182,378
Interest	213,748	-	213,748
Change of benefit terms	-	-	-
Difference between expected and actual experience	(123)	-	(123)
Changes of assumptions	-	-	-
Contributions - employer	-	142,494	(142,494)
Contributions - employee	-	68,933	(68,933)
Net investment income	-	330,661	(330,661)
Benefit payments, including refunds of employee contributions	(174,425)	(174,425)	-
Administrative expense	-	(1,712)	1,712
Other changes	-	(87)	87
Net changes	221,578	365,864	(144,286)
Balance at 12/31/2017	\$ 3,384,190	\$ 2,748,868	\$ 635,322

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1 -percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 1,077,819	\$ 635,319	\$ 272,605

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$106,259.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 28
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings (net of current year amortization)	-	72,261
Contributions subsequent to the measurement date	100,195	-
Total	<u>\$ 100,195</u>	<u>\$ 72,289</u>

\$100,195 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2019	\$	412
2020		(4,661)
2021		(34,080)
2022		(33,960)
2023		-
Thereafter		-

**CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employee's entire careers.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	4
Active employees	24
Total	<u>40</u>

Contributions

Employees for the City of Taft were required to contribute 0.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.29% and 0.39% in calendar year 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$3,217 and were equal to the required contributions.

Net Pension Liability

The City's Net OPEB Liability was measured as of December 31, 2017, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.50% to 10.5% per year - including inflation
Discount rate*	3.31%
Retiree's share of benefit related costs	\$0

**The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.*

Administrative Expenses - All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates – service retirees - RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates – disabled retirees – RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Total OPEB Liability:

	Increase (Decrease)
	Total OPEB Liability
Balance at 12/31/2016	\$ 78,288
Changes for the year:	
Service cost	3,742
Interest	3,017
Change of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	5,693
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments,	-
including refunds of employee contributions	(689)
Administrative expense	-
Other changes	-
Net changes	11,763
Balance at 12/31/2017	\$ 90,051

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's total OPEB liability	\$ 104,428	\$ 90,051	\$ 78,572

CITY OF TAFT, TEXAS
NOTES TO THE FINACIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

For the year ended September 30, 2018, the City recognized OPEB expense in the amount of \$8,044.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ -
Changes in actuarial assumptions	4,408	-
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	2,435	-
Total	<u>\$ 6,843</u>	<u>\$ -</u>

\$2,435 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended December 31:

2019	\$ 1,285
2020	1,285
2021	1,285
2022	553
2023	-
Thereafter	-

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 14 HEALTH CARE COVERAGE

During the year ended September 30, 2018, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$677 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Plan was authorized by Article 3.51-5, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer are available for the year ended and have been filed with the Texas State Board of Insurance, Austin, Texas and are public record.

Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

NOTE 15 COMMITMENTS AND CONTINGENCIES

There are claims and/or lawsuits pending against the City that were required to be disclosed. The City has not accrued any potential liability pending its lawsuits. No liability has been established for any pending and outstanding suits. The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

NOTE 16 RISK MANAGEMENT

The City is exposed to various to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims from these risks have not exceeded coverage in any of the past three fiscal years.

**CITY OF TAFT, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 17 COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None Reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds

At September 30, 2018, the General Fund had a deficit fund balance of (\$98,241) and the State Fees Fund had a deficit fund balance of (\$119,862).

C. Excess of expenditures over appropriations

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund:

<u>Fund Name</u>	<u>Department/Expenditure</u>	<u>Amount of Excess</u>
General Fund	Municipal Court	\$ 1,391
General Fund	Administration	\$ 7,963
General Fund	Library	\$ 1,185
General Fund	Parks	\$ 64,782

NOTE 18 PRIOR PERIOD ADJUSTMENTS

During fiscal year 2018, the City adopted GASB statement No. 75 for *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. A prior period adjustment of (\$54,112) was made to the government wide statements and a prior period adjustment of (\$22,103) was made to the enterprise funds which resulted in a decrease in net position and fund balance. Additionally, a prior period adjustment of (\$2,008) was made to the general fund which resulted in a decrease in net position and fund balance and a prior period adjustment of \$24,090 was made to the enterprise fund which resulted in a increase in net position and fund balance.

NOTE 19 EVALUATION OF SUBSEQUENT EVENTS

The City is currently in a small deficit in the General Fund and corrections must be done in order for the City to return its fund balance to at least three months of annual operations. The City is working toward that goal and working on improvements. The City was awarded a grant from the Texas Department of Transportation for sidewalk improvements which at fiscal year end is in planning stages. The Council has evaluated subsequent events through May 14, 2019 the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF TAFT, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 463,696	\$ 463,696	\$ 421,097	\$ (42,599)
5111	Taxes Delinquent	50,000	50,000	83,320	33,320
5120	General Sales and Use Taxes	205,000	205,000	246,038	41,038
5170	Franchise Tax	87,580	87,580	98,055	10,475
5177	Hotel/Motel Tax	3,000	3,000	3,585	585
5190	Penalty and Interest on Taxes	30,000	30,000	27,091	(2,909)
5200	Licenses and Permits	29,116	29,116	24,626	(4,490)
5300	Intergovernmental Revenue and Grants	-	-	100,012	100,012
5510	Fines	16,250	16,250	28,162	11,912
5610	Investment Earnings	200	200	61	(139)
5700	Other Revenue	212,100	212,100	331,971	119,871
5020	Total Revenues	1,096,942	1,096,942	1,364,018	267,076
EXPENDITURES:					
Current:					
0110	General Government	586,750	586,750	585,498	1,252
0120	Finance	195,665	195,665	181,740	13,925
0130	Municipal Court	48,302	48,302	49,693	(1,391)
0140	Administration	89,418	89,418	97,381	(7,963)
0160	Legislative	50,097	50,097	45,259	4,838
0170	Tax Collection	17,164	17,164	16,258	906
0210	Police	537,732	537,732	527,319	10,413
0220	Fire Protection	25,100	25,100	1,310	23,790
0240	Emergency Medical Service	204,000	204,000	204,000	-
0260	Animal Control	54,426	54,426	54,145	281
0280	Code Enforcement	15,998	15,998	1,716	14,282
0310	Highways and Streets	135,730	135,730	103,265	32,465
0510	Library	65,613	65,613	67,498	(1,885)
0520	Parks	66,033	66,033	130,815	(64,782)
0560	Community Centers	16,599	16,599	10,542	6,057
Debt Service:					
0710	Principal on Debt	3,489	3,489	3,489	-
0720	Interest on Debt	620	620	620	-
6030	Total Expenditures	2,112,736	2,112,736	2,080,548	32,188
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,015,794)	(1,015,794)	(716,530)	299,264
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	3,000	3,000
7915	Transfers In	1,017,876	1,017,876	800,907	(216,969)
7080	Total Other Financing Sources (Uses)	1,017,876	1,017,876	803,907	(213,969)
1200	Net Change in Fund Balances	2,082	2,082	87,377	85,295
0100	Fund Balance - October 1 (Beginning)	(187,626)	(187,626)	(187,626)	-
1300	Prior Period Adjustment	-	-	2,008	2,008
3000	Fund Balance - September 30 (Ending)	\$ (185,544)	\$ (185,544)	\$ (98,241)	\$ 87,303

CITY OF TAFT, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 182,378	\$ 164,979	\$ 166,770	\$ 178,906
Interest (on the Total Pension Liability)	213,745	209,567	192,863	183,803
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	(123)	(157,954)	36,416	(84,571)
Changes of Assumptions	-	-	101,816	-
Benefit Payments, including refunds of employee contributions	(174,425)	(152,381)	(142,536)	(142,737)
Net change in Total Pension Liability	\$ 221,575	\$ 64,211	\$ 355,329	\$ 135,401
Total Pension Liability - Beginning	3,162,612	3,098,401	2,743,072	2,604,671
Total Pension Liability - Ending	\$ 3,384,187	\$ 3,162,612	\$ 3,098,401	\$ 2,740,072
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 142,494	\$ 118,619	\$ 119,931	\$ 104,293
Contributions - Employee	68,933	69,486	74,499	77,790
Net Investment Income	330,661	149,095	3,171	114,128
Benefit Payments, including refunds of employee contributions	(174,425)	(152,381)	(142,536)	(142,737)
Administrative Expense	(1,712)	(1,679)	(1,930)	(1,191)
Other	(87)	(90)	(95)	(98)
Net Change in Plan Fiduciary Net Position	\$ 365,864	\$ 183,050	\$ 53,040	\$ 152,185
Plan Fiduciary Net Position - Beginning	2,383,004	2,199,954	2,146,915	1,994,730
Plan Fiduciary Net Position - Ending	\$ 2,748,868	\$ 2,383,004	\$ 2,199,955	\$ 2,146,915
C. Net Pension Liability	\$ 635,319	\$ 779,608	\$ 898,446	\$ 593,157
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	81.23%	75.35%	71.00%	78.35%
E. Covered Payroll	\$ 984,762	\$ 992,656	\$ 1,064,265	\$ 1,111,280
F. Net Pension Liability as a Percentage of Covered Payroll	64.51%	78.54%	84.42%	53.38%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only four years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF TAFT, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2018

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 139,238	\$ 132,585	\$ 120,783	\$ 114,529
Contributions in Relation to the Actuarially Determined Contributions	(139,238)	(132,585)	(120,783)	(114,529)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 894,088	\$ 985,310	\$ 1,000,324	\$ 1,020,793
Contributions as a Percentage of Covered Payroll	15.57%	13.46%	12.07%	11.22%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF TAFT, TEXAS
NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

CITY OF TAFT, TEXAS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>FY 2018</u> <u>Plan Year 2017</u>
Total OPEB Liability	
Service Cost	\$ 3,742
Interest on the Total OPEB Liability	3,017
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	-
Changes of Assumptions	5,693
Benefit Payments*	(689)
Net change in Total OPEB Liability	<u>11,763</u>
Total OPEB Liability - Beginning	78,288
Total OPEB Liability - Ending	<u>\$ 90,051</u>
Covered Payroll	\$ 984,762
Total OPEB Liability as a Percentage of Covered Payroll	9.14%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF TAFT, TEXAS
NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Valuation Date: Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	17 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and
Other Information:	There were no benefit changes during the year.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

CITY OF TAFT, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

Data Control Codes		208 TDA Grant Fund	211 Fireman's Pension Fund	215 Fireman's Operating Fund	219 Police Department Fund
ASSETS					
1010	Cash and Cash Equivalents	\$ 3	\$ 143,509	\$ 70,736	\$ 525
1150	Accounts Receivable Net	-	-	-	-
1300	Due from Other Funds	-	-	80,907	-
1000	Total Assets	<u>\$ 3</u>	<u>\$ 143,509</u>	<u>\$ 151,643</u>	<u>\$ 525</u>
LIABILITIES					
2015	Bank Overdraft	\$ -	\$ -	\$ -	\$ -
2080	Due to Other Funds	-	-	77,196	-
2090	Due to Others	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>77,196</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	3	-	-	-
3490	Other Restricted Fund Balance	-	143,509	74,447	525
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>3</u>	<u>143,509</u>	<u>74,447</u>	<u>525</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3</u>	<u>\$ 143,509</u>	<u>\$ 151,643</u>	<u>\$ 525</u>

EXHIBIT H-1 (Cont'd)

226 Taft Building & Security Fund	227 Taft Court Technology Fund	229 Pride of Taft Fund	241 Police Dept A/C Donation Fund	242 Municipal Court Fund	243 Street Fund	245 State Fees Fund	264 Drug Seizure Fund
\$ 16,022	\$ 26,835	\$ 2,018	\$ 40	\$ 43,253	\$ 98,170	\$ -	\$ 13,406
-	-	-	-	-	8,018	-	-
-	-	-	-	-	33,455	-	-
<u>\$ 16,022</u>	<u>\$ 26,835</u>	<u>\$ 2,018</u>	<u>\$ 40</u>	<u>\$ 43,253</u>	<u>\$ 139,643</u>	<u>\$ -</u>	<u>\$ 13,406</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 109,432	\$ -
-	-	-	-	-	4,082	8,737	-
-	-	-	-	-	-	1,693	-
-	-	-	-	-	4,082	119,862	-
-	-	-	-	-	-	-	-
16,022	26,835	2,018	40	43,253	135,561	-	13,406
-	-	-	-	-	-	(119,862)	-
<u>16,022</u>	<u>26,835</u>	<u>2,018</u>	<u>40</u>	<u>43,253</u>	<u>135,561</u>	<u>(119,862)</u>	<u>13,406</u>
<u>\$ 16,022</u>	<u>\$ 26,835</u>	<u>\$ 2,018</u>	<u>\$ 40</u>	<u>\$ 43,253</u>	<u>\$ 139,643</u>	<u>\$ -</u>	<u>\$ 13,406</u>

CITY OF TAFT, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2018

Data Control Codes		265 Forfeiture Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS				
1010	Cash and Cash Equivalents	\$ -	\$ 414,517	\$ 414,517
1150	Accounts Receivable Net	-	8,018	8,018
1300	Due from Other Funds	-	114,362	114,362
1000	Total Assets	<u>\$ -</u>	<u>\$ 536,897</u>	<u>\$ 536,897</u>
LIABILITIES				
2015	Bank Overdraft	\$ -	\$ 109,432	\$ 109,432
2080	Due to Other Funds	-	90,015	90,015
2090	Due to Others	-	1,693	1,693
2000	Total Liabilities	<u>-</u>	<u>201,140</u>	<u>201,140</u>
FUND BALANCES				
Restricted Fund Balance:				
3250	Federal or State Funds Grant Restriction	-	3	3
3290	Other Restricted Fund Balance	-	455,616	455,616
3600	Unassigned Fund Balance	-	(119,862)	(119,862)
3000	Total Fund Balances	<u>-</u>	<u>335,757</u>	<u>335,757</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 536,897</u>	<u>\$ 536,897</u>

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CITY OF TAFT, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	208 TDA Grant Fund	211 Fireman's Pension Fund	215 Fireman's Operating Fund	219 Police Department Fund
REVENUES:				
Taxes:				
5120 General Sales and Use Taxes	\$ -	\$ -	\$ -	\$ -
5400 Charges for Services	-	-	-	-
5510 Fines	-	-	-	-
5700 Other Revenue	-	4	40,065	5,036
5020 Total Revenues	-	4	40,065	5,036
EXPENDITURES:				
Public Safety:				
0210 Police	-	-	-	7,383
0220 Fire Protection	-	2,644	41,616	-
Public Works:				
0310 Highways and Streets	-	-	-	-
Health and Welfare:				
0410 Welfare	-	-	-	-
6030 Total Expenditures	-	2,644	41,616	7,383
1200 Net Change in Fund Balance	-	(2,640)	(1,551)	(2,347)
0100 Fund Balance - October 1 (Beginning)	3	146,149	75,998	2,872
3000 Fund Balance - September 30 (Ending)	\$ 3	\$ 143,509	\$ 74,447	\$ 525

226 Taft Building & Security Fund	227 Taft Court Technolgy Fund	229 Pride of Taft Fund	241 Police Dept A/C Donation Fund	242 Municipal Court Fund	243 Street Fund	245 State Fees Fund	264 Drug Seizure Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,509	\$ -	\$ -
-	-	-	-	-	65,347	-	-
983	1,311	-	-	6,066	-	-	-
-	-	16,122	40	-	-	-	-
983	1,311	16,122	40	6,066	126,856	-	-
-	-	-	-	-	-	-	3,828
-	-	-	-	-	-	-	-
-	-	-	-	-	57,322	-	-
-	-	18,990	-	-	-	-	-
-	-	18,990	-	-	57,322	-	3,828
983	1,311	(2,868)	40	6,066	69,534	-	(3,828)
15,039	25,524	4,886	-	37,187	66,027	(119,862)	17,234
\$ 16,022	\$ 26,835	\$ 2,018	\$ 40	\$ 43,253	\$ 135,561	\$ (119,862)	\$ 13,406

CITY OF TAFT, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	265 Forfeiture Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
5120 General Sales and Use Taxes	\$ -	\$ 61,509	\$ 61,509
5400 Charges for Services	-	65,347	65,347
5510 Fines	-	8,360	8,360
5700 Other Revenue	-	61,267	61,267
5020 Total Revenues	-	196,483	196,483
EXPENDITURES:			
Public Safety:			
0210 Police	-	11,211	11,211
0220 Fire Protection	-	44,260	44,260
Public Works:			
0310 Highways and Streets	-	57,322	57,322
Health and Welfare:			
0410 Welfare	-	18,990	18,990
6030 Total Expenditures	-	131,783	131,783
1200 Net Change in Fund Balance	-	64,700	64,700
0100 Fund Balance - October 1 (Beginning)	-	271,057	271,057
3000 Fund Balance - September 30 (Ending)	\$ -	\$ 335,757	\$ 335,757

CITY OF TAFT, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - UNIDENTIFIED FUND FROM TRIAL BALANCE
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
5110 Property Taxes	\$ 290,502	\$ 275,792	\$ 294,920	\$ 19,128
5111 Taxes Delinquent	-	28,674	28,674	-
5610 Investment Earnings	230	230	-	(230)
5020 Total Revenues	290,732	304,696	323,594	18,898
EXPENDITURES:				
Debt Service:				
0710 Principal on Debt	257,636	251,636	-	251,636
0720 Interest on Debt	32,065	32,065	-	32,065
0790 Other Debt Service	801	801	119	682
6030 Total Expenditures	290,502	284,502	119	284,383
1100 Excess of Revenues Over Expenditures	230	20,194	323,475	303,281
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	(290,419)	(290,419)
7080 Total Other Financing Sources (Uses)	-	-	(290,419)	(290,419)
1200 Change in Fund Balance	230	20,194	33,056	12,862
0100 Fund Balance - October 1 (Beginning)	311,451	311,451	311,451	-
3000 Fund Balance - September 30 (Ending)	\$ 311,681	\$ 331,645	\$ 344,507	\$ 12,862

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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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Raul Hernandez and Company, P.C.
Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411
Office (361)980-0428 Fax (361)980-1002

**Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards**

To the City Council
City of Taft, Texas
P.O. Box 416
Taft, Texas 78390

Members of the To the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Taft, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Taft, Texas's basic financial statements and have issued our report thereon dated May 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Taft, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taft, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Taft, Texas's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-1, 2018-2, 2018-3, and 2018-4 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-1, 2018-2, 2018-3, and 2018-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Taft, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2018-1, 2018-2, 2018-3, and 2018-4.

City of Taft, Texas's Response to Findings

City of Taft, Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Taft, Texas's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in blue ink that reads "Raul Hernandez & Company, P.C.".

Raul Hernandez & Company, P.C.

Corpus Christi, TX
May 14, 2019

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? X Yes None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards - N/A

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

B. Financial Statement Findings

Finding No. 2018-1.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the cash reconciliation, accounts receivable, tax receivable, accounts payable, fixed assets, bond schedules etc.

Condition: The City of Taft did not maintain accurate sub-ledgers to the financial statements during the fiscal year. Finding is a repeat from prior fiscal year.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with daily accounting needs.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: For accountability compliance and internal control purposes, the City of Taft should ensure there are sufficient staff members that can assist with the daily accounting needs of the City.

Management Response: The City of Taft has hired a fee accountant/CPA firm to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

Finding No. 2018-2.

Criteria: The City's accounting system must make it possible both: (a) to present fairly and fully disclose the funds and activities of the City in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Condition: The City did not prepare accurate schedules of Due to & Due from, a schedule of transfers, accurate schedules of debt, and accurate capital lease schedule. Finding is a repeat from prior fiscal year.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place.

Management Response: The City of Taft has a step by step process for year-end closing which will be developed and implemented for full compliance of financial reporting at year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2018-3.

Criteria: Management is responsible for understanding proper accounting rules in recording all financial transactions as well as compliance with the requirements of law, regulations, contracts, and grants applicable to the City's federal programs. Therefore, this process requires management to record transactions accurately in order to develop relevant and reliable financial statements. Furthermore, an official and thorough review of all postings of transactions and account balances should be performed by key management personnel.

Condition: The City recorded numerous posting errors during the fiscal year and especially during the year-end closing. We performed an extended analysis of many accounts and transactions and we determined that the errors resulted from the lack of proper oversight by an authorized personnel. Finding is a repeat from prior fiscal year.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place. The City should consider hiring an CPA with governmental knowledge to provide technical assistance and oversight of all accounting functions.

Management Response: The City of Taft has a step by step process for year-end closing which will be developed and implemented for full compliance of financial reporting at year-end and cross training is ongoing.

Finding No. 2018-4.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the Utility Fund as well.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets. Finding is a repeat from prior fiscal year.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund as well as other city funds to three months of annual operational expenditures/expenses.

Management Response: The City of Taft has a step by step process for year-end closing which will be developed and implemented for full compliance of financial reporting at year-end and cross training is ongoing.

**CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

- C. Federal Award Findings and Questioned Costs
NONE

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2017-1.

Criteria: The City of Taft is required to maintain accurate and timely sub-ledgers to the financial statements during the fiscal year, including the cash reconciliation, accounts receivable, tax receivable, accounts payable, fixed assets, bond schedules etc.

Condition: The City of Taft did not maintain accurate sub-ledgers to the financial statements during the fiscal year. The Pool Cash Account Reconciliation (includes General Fund, Water Fund, Building Security Fund, Court Technology Fund, Wastewater Fund, Sanitation Fund, State Fees Fund, and Pooled Cash Fund) had an unidentifiable reconciling balance of \$6,933 at September 30, 2017.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with daily accounting needs.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: For accountability compliance and internal control purposes, the City of Taft should ensure there are sufficient staff members that can assist with the daily accounting needs of the City.

Management Response: The City of Taft has hired fee accountant/CPA firm to help with preparation of General Ledgers and Bank Reconciliations and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2018.

Finding No. 2017-2.

Criteria: The City's accounting system must make it possible both: (a) to present fairly and fully disclose the funds and activities of the City in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Condition: The City did not prepare accurate schedules of Due to & Due from, a schedule of transfers, accurate schedules of debt, and accurate capital lease schedule.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2018.

**CITY OF TAFT, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Finding No. 2017-3.

Criteria: Management is responsible for understanding proper accounting rules in recording all financial transactions as well as compliance with the requirements of law, regulations, contracts, and grants applicable to the City's federal programs. Therefore, this process requires management to record transactions accurately in order to develop relevant and reliable financial statements. Furthermore, an official and thorough review of all postings of transactions and account balances should be performed by key management personnel.

Condition: The City recorded numerous posting errors during the fiscal year and especially during the year-end closing. We performed an extended analysis of many accounts and transactions and we determined that the errors resulted from the lack of proper oversight by a authorized personnel.

Cause: The City of Taft, lacks sufficient clerical staff members to assist with the year end closing of the City's books, including supporting schedules and the general ledger.

Effect: The City of Taft, had various ledgers that were not reconciled at year end.

Recommendation: The Finance department should be properly informed and supervised regarding the understanding of year end closing of the City's books. The City must develop a year end closing plan and ensure that proper internal controls over financial reporting and compliance are in place. The City should consider hiring an CPA with governmental knowledge to provide technical assistance and oversight of all accounting functions.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2018.

Finding No. 2017-4.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the Utility Fund as well.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund as well as other city funds to three months of annual operational expenditures/expenses.

Management Response: The City of Taft has a step by step process for year-end closing will be developed and implemented for full compliance of financial reporting of year-end and cross training is ongoing.

Finding has been reported during the current fiscal year ending September 30, 2018.

**CITY OF TAFT, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Management will undertake the proper steps to maintain accurate financial records, overall internal control and timely financial reporting.

The City Manager is the contact person and will oversee corrective action.

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